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SE Business
 HD **Bombardier's risky plan: Selling green trains and keeping black planes; It was the politically expedient move; it was not the best sustainable business move**
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Rome

When she's not traversing oceans on sailboats, Greta Thunberg, the 17-year-old Swedish climate activist, travels on electric trains. If she had her way, overland travel would be limited to trains, trams and subways, whose carbon footprint is usually dramatically lower than that of aircraft, buses and cars.

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High-speed train travel is becoming the norm in Western Europe and the market is expanding. After years of dithering, Britain, the last big Western European country without a high-speed network, is getting into the game. Its HS2 project comes at an astonishing cost – more than £100-billion (\$170-billion), according to some independent estimates, the equivalent of about 13 per cent of Canada's gross domestic product.

While only a small portion of that amount will pay for trains and their signalling systems, HS2 gives you an idea of the future of transportation: It's not gasoline or diesel cars – and may not be passenger jets. Any Green New Deal, the mantra of U.S. Senator Bernie Sanders and other politicians who preach the necessity of sustainable economies, will demand electric transportation on a massive scale.

Which brings us to Bombardier. On Monday, the Montreal company agreed to sell its global train business, known as Bombardier Transportation (BT), to France's Alstom for €7.5-billion (US\$8.2-billion), including debt. If the deal is approved by the European Union's trust busters, Bombardier's decades-long foray into everything that runs on steel wheels, from high-speed trains in China to subways in New York, will end, leaving it solely as a maker of business aircraft for Davos Man and the rest of the top ranks of the one percenters.

[Inside Bombardier's decision to sell its rail business to France's Alstom](#)

Bombardier faced an existential crisis and something had to give. By this month, it had unloaded the last of its commercial aircraft business and vowed to sell either BT or business jets to bash the debt-mired capital structure into shape. But why did it keep the cyclical, highly capital-intensive and polluting business jet division, whose growth prospects are uncertain, and sell the potentially high-growth and environmentally kind train operation?

Part of the reason was that the business jets, including the lingering remains of the commercial jet, were performing better and throwing off free cash flow. In the 2019 fiscal year, the aviation side pumped out almost US\$1.2-billion (\$1.5-billion) in earnings before interest and taxes. BT's equivalent figure was only US\$212-million, even though it's comparable in size to the aviation division. Worse, BT lost a small

fortune in the fourth quarter, the result of a series of contract blunders. BT needed fixing, the business jet division did not, so bye-bye, BT.

The explanation is not so simple, of course, because selling the jets instead would have triggered a political firestorm in Quebec, where most of Bombardier's 27,000 aerospace employees work. The Quebec government came to the rescue of Bombardier's C Series passenger jet a few years ago and owns 25 per cent of the project; Airbus now owns the rest. To risk the factories and high-paying jobs by selling the jets to a foreign competitor was virtually unthinkable. Selling BT is a different matter; most of its jobs are in Europe.

Too bad, because trains are where the action is as governments shake off austerity and vow to green up their economies under their commitments to the 2015 Paris climate agreement. Many of the companies making the transition from black to green are thriving. One of them is Denmark's top electricity generator, Orsted, which swapped its fossil fuel plants for wind power and became a stock market star along the way.

Another is Alstom, whose diversification strategy was failing in the past decade. Its solution was a transformational deal that saw it sell its gas-turbine energy business to General Electric so it could concentrate on trains. The purchase of Alstom's fossil fuel division proved disastrous for GE, whereas Alstom's shares have more than doubled since 2016, and rose almost 50 per cent in the past year.

For Alstom, the future looks bright. With BT at its side, it will bid for a piece of Britain's HS2 action. (BT and its Japanese partner, Hitachi, were already putting together a joint bid for HS2's high-speed trains.) Germany, meanwhile, plans to spend €86-billion (\$123-billion) to expand and modernize its rail system by 2030. More orders for fast trains will come when Italy and France complete the railway across the Alps that will link Turin and Lyon and include a 57.5-kilometre tunnel, the world's longest.

Market strategist Marshall Auerback, of the Levy Institute, thinks Bombardier made a mistake giving up its trains. "Bombardier's decision strikes me as profoundly short-sighted," he said. "I am sure there was an element of political calculation in the decision, but we're likely to see massive investments in subways and rail in the next few decades, in the U.S. particularly. Now that opportunity is gone."

I would agree. Bombardier's business jets may sell like, well, high-speed trains, but luxury products are always risky long-term bets, even if they come with fat profit margins and get you invited to the best parties. The green transformation might be slower than advertised, but it's real. Bombardier won't be part of that climate solution. Its jets will be part of the problem. Selling BT was the politically expedient move; it was not the best sustainable business move.

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